GAO/IMTEC-89-13

United States General Accounting Office

Report to the Secretary of Defense

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9

January 1989

ADP CONTRACTS

Army Needs to Correct Budget Disclosure Deficiencies

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United States
General Accounting Office
Washington, D.C. 20548

Information Management and
Technology Division

B-231233

January 31, 1989

The Honorable Frank C. Carlucci
The Secretary of Defense

Dear Mr. Secretary:

We have completed our review of the Army's indefinite delivery/indefinite quantity contracts for automated data processing (ADP) equipment. Government agencies use this type of contract when they do not know the exact date they will need certain computer equipment delivered, or the exact amount they will need. Because of its concern about the military services' management of this type of contract, the Congress directed that the contracts be identified and justified in a new exhibit beginning with the 1989 budget. Our objective in this survey was to determine if Defense and the Army had adequately disclosed funding levels for indefinite delivery/indefinite quantity ADP contracts in the 1989 budget exhibits.

We found that, due to a budget reporting error within the Army, Defense's budget exhibit for fiscal year 1989 did not include three large contracts with a cumulative Delegation of Procurement Authority[1] value of about $750 million. The error occurred because the Army had no reporting procedures in place for providing information on indefinite delivery/indefinite quantity contracts to the Army Budget Office. As a result, this information was not made available to the Congress for consideration as part of the fiscal year 1989 Defense budget deliberations.

Responsible Army officials agreed with this finding and told us that they have taken action to ensure that the fiscal year 1990 budget exhibit is correct. The Army has not, however, developed written procedures or designated to an official the responsibility for collecting this information in the future. We are informing you about this problem so that you may take the action necessary to assure this information will be accurately reported to the Congress.

[1]Under the provisions of the Brooks Act, the General Services Administration has the sole authority to procure ADP equipment for the government, but can delegate its procurement authority to the acquiring agency.

Indefinite Delivery/ Indefinite Quantity Contracts Defined

Under the Federal Acquisition Regulation (48 C.F.R. Subpart 16.5), an indefinite quantity contract "provides for an indefinite quantity, within stated limits, of specific supplies or services to be furnished during a fixed period, with deliveries to be scheduled by placing orders with the contractor." The regulation indicates that this type of contract may be used when the exact times and quantities of future deliveries are not known at the time of contract award. For example, several government hospitals may want to order supplies together in order to obtain a quantity discount. If they use an indefinite delivery/indefinite quantity contract, they can provide an estimated amount of the supplies they want, without specifying an exact number. They also will not have to specify in the contract exactly when and where the supplies are to be delivered.

The use of this type of contract can offer the advantages of economy and efficiency. Both time and money can be saved when a single procurement results in a contract that serves multiple customers and obtains quantity discounts.[2] Other advantages of this kind of contract, as enumerated in federal acquisition regulations, include the ability to ship equipment and supplies directly to users, the ability to order supplies or services after the requirements materialize, and the obligation of the government to purchase no more than a specified minimum quantity.

The Army Has Omitted Indefinite Delivery/Indefinite Quantity Contracts From the Fiscal Year 1989 Budget Exhibit

In response to House Appropriations Committee direction that Defense identify and justify large indefinite delivery/indefinite quantity contracts for ADP equipment in its annual budget submissions, in July 1987 the Assistant Secretary of Defense (Comptroller) provided guidance to the military departments and Defense agencies on the preparation of the President's Budget, Information Technology Systems Exhibit 43D-ADP Requirements Contracts (ARC). The guidance requires an exhibit for each indefinite delivery/indefinite quantity type of contract that exceeds $10 million in estimated cost for any fiscal year. An exhibit is required from each service or agency that uses a contract of this size, in addition to an exhibit from the service that manages the contract.

[2]Consolidating Procurements of Medical Equipment Could Save Money (GAO/NSIAD-85-125, Aug. 27, 1985).

We identified six indefinite delivery/indefinite quantity contracts that met Defense's criteria for reporting in the Information Technology Systems section of the President's Budget, 43D-ARC.[3] The Army failed to report three of these contracts—half of the total identified—in the 43D-ARC budget exhibit of 1989. As a result, the Congress did not receive budget information on the status of all Army indefinite delivery/indefinite quantity contracts.

The three contracts for which the Army failed to provide budget information had a cumulative delegation of procurement authority value of about $750 million. (See table 1.)

Table 1: Contracts for Which Army Failed to Provide Budget Information

Contractor	System/equipment	Contract years
Unisys Corporation	Sperry 5000-80	3
Intermec Corporation and Ibis Corporation	Logistics Automated Marking and Reading Symbols	5
Zenith Data Systems	Zenith Z 248	3

The chief of information management systems, Army Budget Office, is responsible for preparing the 43D-ARC. According to him, the three contracts were omitted because the information he received from the Plans Directorate (staff of the Director of Information Systems for Command, Control, Communications and Computers) did not include these contracts. Following the 1987 Army-wide reorganization, Army staff was unclear as to who had the responsibility for compiling the information. In addition, the Army had no written procedures for collecting the information necessary to prepare the new budget exhibit.

Action to Comply With Requirement for 1990 Budget

To correct the internal budget reporting problem for the fiscal year 1990 budget, the Army Budget Office is making a one-time, Army-wide data call to ensure that all contracts that meet the criteria are reported. However, at the close of our review, in December 1988, the Army had not established written procedures to ensure that the information would be collected beyond the 1990 budget exhibit.

Conclusion

The Army's omission of three contracts, with a potential value of about $750 million, from the 1989 budget exhibit was an oversight resulting

[3]Indefinite delivery/indefinite quantity contracts are sometimes identified by the term "requirements contracts" in Defense directives.

from reorganization and some confusion as to responsibilities. Although the Army's data call will collect information for the 1990 budget, the Army has not established procedures to ensure that indefinite delivery/indefinite quantity contracts will be reported accurately in future budget exhibits.

Recommendation

To ensure the accurate reporting of indefinite delivery/indefinite quantity contracts in the President's Budget, Information Technology Systems Exhibit 43D-ARC, we recommend that the Secretary of Defense direct the Secretary of the Army to

- establish written procedures for the collection and reporting of the information, and
- ensure proper implementation by designating the official responsible for oversight.

Scope and Methodology

To assess the accuracy of the information provided in the President's Budget, Information Technology Systems Exhibit 43D-ARC for fiscal year 1989, we reviewed the provisions of the Defense Budget Guidance Manual of July 1987 to obtain information on reporting criteria and format. The Director, Army Information Systems Selection and Acquisition Agency, provided us with current information on Army indefinite delivery/indefinite quantity contracts. We also obtained purchase information from the Department of Defense DD-350 (Individual Contracting Action Report), a computer file that contains records of contract obligations of $25,000 or more. In addition, we discussed the budget reporting process with responsible officials from the Army, including the Director of Information Systems for Command, Control, Communications and Computers and the chief, information management systems, in the Office of the Assistant Secretary of the Army for Financial Management.

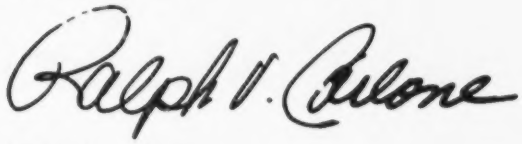
Our work was conducted from May through December 1988 in Washington, D.C., and was performed in accordance with generally accepted government auditing standards. The views of responsible officials were obtained during the course of our review and are incorporated where appropriate.

As you know, 31 U.S.C. 720 requires the head of a federal agency to submit a written statement on actions taken on our recommendations to

the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the House and Senate Committees on Appropriations, the House and Senate Committees on Armed Services, and the Director of the Office of Management and Budget. We will also make copies available to other interested parties upon request. This report was prepared under the direction of William S. Franklin, Associate Director. Other major contributors are listed in appendix I.

Sincerely yours,



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Appendix I

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